OpenEnvoy

Creating a Culture of Cash Excellence

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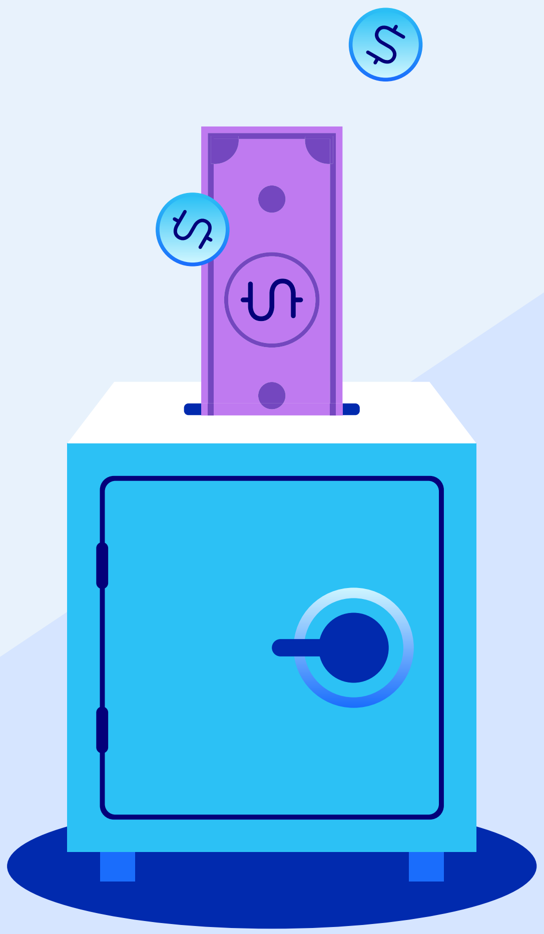
Creating a Culture of Cash Excellence

As COVID-19 reshaped businesses worldwide, many companies were devastated by having inadequate cash resources. Those with strong financial discipline were able to manage the waves of uncertainty, while those who were unprepared suffered cash related issues like bankruptcy or permanent closure. Amidst the crisis, the main goal of the CFO was survival. In an effort to keep business afloat, many finance leaders took measures to preserve cash and reduce costs. Budget cuts, layoffs, and brief shutdowns disrupted supply chains and the fallout took a significant toll on the global economy. A key takeaway revealed to executive leadership teams was the value of having readily available cash.

To ensure that working capital is available for business opportunities, it is critical to proactively safeguard cash. CFOs and finance leaders have the rare chance to reshape the current focus on cash into a long-term standard that guides business operations.

Creating a culture that supports long-term cash excellence is crucial for times of uncertainty, but also required for sustainability.



Growth Champions

Focus on Innovation and Strong Change Management

Now more than ever, having available cash is at the forefront of most C-level discussions. Whether it is the current state of cash, how to create more of it, or how to leverage the current position, CFOs can take the lead in prioritizing cash management as a key factor in decision-making moving forward. To be successful in shifting the way organizations view and manage cash flow, CFOs must garner the help of leadership to create processes that support end-to-end cash management.

According to McKinsey, there are three key factors to consider when creating a cash focused culture: people, structure, and process frameworks.

People are the most important part of any organization. Implementing a new norm for handling cash, like any internal shift, may be met with some level of pushback that will require change management to be successful. Employees must understand that while cash is critical during a crisis, it is also necessary for growth and asset allocation for new projects. Creating an internal dialogue that emphasizes why the company is focusing on cash and what cash excellence means will encourage employees to understand the importance of the initiative. All stakeholders should take accountability for company finances, and bringing on leaders from across the organization will turn the project into a cross-functional team effort.

Structure creates greater accountability and discipline. The CFO can spark the internal discussion regarding cash and place expectations for performance. Routinely examining cash management practices with managers and directors helps to establish a clear consensus and create accountabilities. A survey by **The National Center for the Middle Market** reported that "Companies that experience annual revenue growth of 10% or more are more likely to say working capital management is the top business priority. These fast growers are also more strategic in their approach to working capital management, and they hold meetings on the topic more frequently than their peers". While the finance function manages the pulse of company finances, they alone cannot drive cash excellence. Creating a culture where cash comes first means everyone is held responsible for being financially disciplined, and management should delegate ownership within their functions accordingly.

Processes guide your organization to meet goals. Receiving internal buy-in is critical for employees to take action on cash management strategies. Once messaging and regular check-ins are established, it is important that the CFO works alongside other department leaders to create metrics for tracking performance. Systems that emphasize the value of working capital entail frequent testing and adjusting as business needs and obligations evolve. CFOs can measure the performance of each department and use real-time analytics to create agility and quicker response times.

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The Significant Pieces of Working Capital:

Receivables, Payables, and Inventory

Innovative solutions are essential for long-term business resilience as CFOs are tasked with minimizing the impact of external factors like rising inflation and market uncertainties. According to recent data, companies are "very likely tying up tens of millions of dollars, and in some instances even more than 100 million dollars, in less-than-optimal working capital management practices". Poor invoicing practices, weak policies, or inefficient processes all slow the cash conversion cycle, and repairing process gaps can free obstructed resources.

A recent survey says that companies that improve their receivables, inventory, and payables management by just a week or two can possibly add several million dollars to their cash flow depending on their annual revenue. To move from a culture of cash preservation to cash excellence, CFOs and finance teams should focus on the optimization of working capital through their accounts receivable, payable, and inventory.

Accounts receivable ensures that the cash steadily flows into the business.

CFOs should implement an end-to-end process that helps to optimize the accounts receivable function:

- **Regulate payment terms** to lessen errors across accounts and build efficiency. Set a standard policy and start an initiative to transition non-compliant accounts to the standard.
- **Complete superior customer onboarding** that communicates payment terms and enforces requirements. Support the sales and customer-onboarding teams by frequently emphasizing the importance of adhering to the payment policies.
- **Streamline the invoicing process** with automation technology. Automation technology can optimize invoicing and eliminate communication lags that delay invoices from being sent out promptly.

Accounts payable maintains business operations and supports vendor relationships.

Cash flow management is all about balance. AP teams must strictly monitor working capital to meet contractual obligations with vendors while maintaining enough capital for growth opportunities. Paying invoices too slowly builds unnecessary debt and deteriorates supplier relationships. **The following changes can unlock cash flow from within accounts payable:**

- **Improve supplier management** by tracking supplier performance with a system that generates enhanced visibility. Understanding a supplier's cost, quality, and reliability can support the AP team in pricing and payment negotiations.
- **Reduce reliance on manual processes** with automation technology. Human teams are fundamental for finishing high-level tasks, but manual entry systems are error-prone and inefficient. Real-time AP automation technology can accurately process high influxes of invoices in a matter of minutes.

- **Eliminate wasted spending** with real-time AP automation. The latest AP automation technology can generate cash flow immediately by identifying invoice errors and discrepancies before any payment is made.

Maintaining stable inventory is challenging, but critical for sustainability.

Managing inventory has been difficult for businesses with complex supply chains, especially when production is vulnerable to shortages from other businesses. By understanding how suppliers manage the supply chain, finance teams can structure responses to shortages that do not limit or restrict cash flow. **Implementing the following inventory management practices can help support cash flow:**

- **Increase supply chain visibility** by deploying tools that provide end-to-end visibility into first, second, and third-tier suppliers. By knowing how parts are sourced, companies can lower the risks of disruptions, prepare backup strategies, and pivot quickly when necessary.
- **Implement a collaborative approach** to supplier partnerships. Through careful supplier management and relationship building, buyers can create the opportunity for better negotiation or priority, if capital becomes tight or when inventory shortages arise.
- **Build resilience into the supply chain** by disassembling processes to uncover risks that can disrupt production at each tier of suppliers. Executives can apply analytics, AI, and forecasting tools for real-time insights for more nimble decision-making.

Automated Cash Management

Shortens the Cash Conversion Cycle

While company actions are dictated by their short and long-term goals, strict cash management practices enable finance teams to improve financial forecasting and strengthen working capital. **According to Deloitte, improving working capital requires a cash management culture where executives and senior management encourage financial discipline. Financial discipline can be enforced by automating cash management processes in four ways: shortening the cash conversion cycle, optimizing financial functions, increasing visibility, and monitoring business spending.** With the power of advanced technology like artificial intelligence and real-time automation, executing these four methods is quite manageable. Shortening the cash conversion cycle means driving inventory and accounts payable through sales and accounts receivable, then converting it back into cash as efficiently as possible. By adopting advanced automation technology, finance teams can reduce manual systems and expedite this cycle.

For inventory and the accounts payable function, real-time AP automation enables finance teams to receive and process high influxes of supplier invoices, identify billing errors before payment, and get invoices paid faster to take advantage of supplier discounts. This error-free process keeps suppliers happy and efficiently moves inventory to sales and accounts receivable.

As sales teams work to get inventory out the door, they can also support accounts receivable. Sales should be communicating with customers about payment terms and be diligent in follow up to ensure their accounts aren't running past due. Automated accounts receivable technology, helps the AR team get accurate invoices sent to customers promptly and creates more time for the AR team to resolve delinquent accounts and forecast cash flow.

Increasing visibility impacts the finance function's ability to monitor business spending and make wise financial decisions. Real-time automation technology can also produce end-to-end visibility into business spending that is critical for creating forecasts and optimizing working capital.

About OE

OpenEnvoy enables finance teams of all sizes with visibility, automation, and cash flow solutions. To learn more about how OpenEnvoy can help you prevent wasted spend, visit **https://www.openenvoy.com** or read more at **Future FinOps**.